

**Opening Statement of Chairwoman Sue Kelly  
Financial Services Subcommittee on Oversight and  
Investigations Hearing on: “Catastrophe Bonds:  
Spreading Risk”**

**October 8, 2002; 2:00 p.m. 2128 Rayburn**

---

Let me first say welcome to what will likely be the last hearing in the Financial Services Committee for the 107th Congress. It would be an understatement to say that this committee has been busy. I know our staff agrees. Let me take this opportunity to publicly thank the remarkable and professional staff of this Financial Services Committee for their work this year.

The topic of discussion today is a new slant on an old problem. We only have to go back one Congress in the old Banking Committee to recall the numerous hours spent debating the creation of insurance capacity for disaster prone areas. Individuals can disagree about the nature of the solution, the fact still remains that increasing capacity in our insurance markets is incredibly important.

Whether you're a disaster prone state like Florida or California, or from a state like mine with terrorist-targeted properties, it remains to be seen how much in the way of accumulated losses the private insurance and reinsurance market can absorb before the entire market is put at risk. As we see today, large insurers and reinsurers are being downgraded by rating agencies, and markets continue to harden.

When we last looked at the issue of natural disaster exposures, there was mention made of using the capital markets perhaps as a way to spread risk beyond the traditional insurance markets. Let me quote from 1999 testimony in front of this committee, “the potential capacity from the capital markets should not be ignored or underestimated during consideration of [what was then Rick Lazio’s federal disaster reinsurance bill]. While still in its infancy, a lot of resources are being directed by capital markets intermediaries to encourage the development of the market.” And further testimony stated: “the development [of this risk-linked securities market] could revolutionize catastrophe insurance funding and greatly expand the capacity of the US insurance market...” The private capital markets made sense then and probably make even more sense now.

Last year Chairman Oxley requested the Government Accounting Office (GAO) look at the use of catastrophe bonds and their track record to date. Some in the private sector suggest that what was once touted as the next big financing instrument never really took off in the market as anticipated. The committee asked the GAO to find out exactly why that was. Specifically, the committee inquired if it was a structural problem, meaning these instruments are too complicated or produce prohibitive transaction costs; or if it was because the market didn't understand how to evaluate their underlying risk; or, if it was because the traditional insurance market was soft and there wasn't a demonstrated need for new sources of capital.

GAO appears before us today to discuss its findings, with an emphasis on the barriers and hurdles these instruments face. The team that put this report together is to be commended for their work in taking such a complicated topic and really boiling it down into its essential nuts and bolts. The committee appreciates the GAO's work in this area and its cooperation with committee staff in drawing its conclusions.

Before I close, let me quickly make two points. First, this committee is looking to facilitate capacity creation in the insurance marketplace. In this case, we are examining catastrophe bonds. This is not to suggest that a booming market for these bonds should replace or be an alternative to traditional insurance financing such as risk spreading by way of reinsurance. Second, in no way should anyone leave this room thinking the Financial Services Committee is creating a new class of government bond or government-backed security. This committee is simply looking at ways to possibly remove barriers that will bring about greater acceptance of an instrument that already exists in the marketplace today.